Testimony of

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On behalf of

The California Rice Commission, USA Rice and the US Rice Producers Association

Before the

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Introduction

Good morning, Chairman Goodlatte, Ranking Member Peterson and Members of the Committee.

I am Al Montna, a rice producer from Yuba City, California. I serve on the Board of the California Rice Commission, which represents the entirety of the state's rice growers, milling and marketing organizations. I am also speaking on behalf of the USA Rice Federation and the US Rice Producers Association, which represent rice growers and handlers across the nation. I also serve as Chairman of the California State Board of Food and Agriculture.

Thank you for holding this hearing and for the opportunity to express our views on farm policy and the farm bill.

As Congress holds these hearings in preparation for the next farm bill, the U.S. rice industry supports maintaining an effective farm safety net that includes a marketing loan program, as well as income support payments and planting flexibility.

Overall, continuation of the Farm Security and Rural Investment Act of 2002 (2002 Farm Act), with its strong safety net and planting flexibility provisions, is the best policy for the rice industry.

At this time, rice producers and others in production agriculture face an uncertain farm policy and personal financial future due to repeated proposals to cut our farm programs and the ongoing Doha Round World Trade Organization (WTO) negotiations.

For these reasons, the U.S. rice industry supports an extension of the 2002 Farm Act in its current form until such time as the World Trade Organization provides a multilateral trade agreement that is approved by the U.S. Congress.

The 2002 Farm Act continues to provide rice producers with a safety net based on direct payments, counter-cyclical payments, and marketing loan benefits.

Without a doubt, the 2002 Farm Act continues to be a sound, effective investment in farmers and rural communities. More importantly, consumers benefit from the most stable, safe, abundant, and affordable food supply in the world.

The 2002 Farm Act's safety net needs to be continued in the next farm bill. National food security justifies it. Prolonged price spikes for key farm inputs of fuel and fertilizer, which are eroding farm income rapidly, also reinforce the need for reauthorization of the Act's safety net.

For this nation and its citizens, food security is as compelling a national resource as are energy and military security.

Government Support to U.S. Rice Producers

The Farm Safety Net & National Food Security

For nearly a century, one of the primary goals of agricultural policy has been to provide farmers with a safety net that helps them during periods of low market prices, while benefiting the nation's consumers.

2002 Farm Act Extension

In February of this year, all 6 states of the U.S. rice industry met to discuss priorities and issues for the industry. Preservation of a strong safety net for production agriculture, as provided by the Farm Security and Rural Investment Act of 2002, is the number one issue for the industry. As such, the industry adopted the following resolution:

"Until such time as the World Trade Organization provides a multilateral trade agreement that is approved by the U.S. Congress, the U.S. rice industry seeks the extension of the 2002 Farm Bill in its current form."

There are a number of key factors that support extending the 2002 Farm Act until a final WTO agreement is in place.

1. Any reduction of the current programs and spending levels of the farm bill will result in the effect of "unilateral disarmament" by the U.S. and ultimately weaken our negotiating position with other countries. The current safety net should be maintained until a final WTO agreement is reached and approved by Congress.

2. Writing a new farm bill in advance of a final WTO agreement could result in a very short-term bill that must be rewritten once WTO negotiations are concluded and the new trade rules are known. Multiple farm bill authorizations in a short timeframe will weaken the predictability and stability that are key components of any effective farm safety net. This predictability is a key requirement for the lending community that provides financing for production agriculture and any changes that inject uncertainty into this safety net will lead to financing difficulties.

3. The current farm bill is working as it was designed in a counter-cyclical nature. It is a fiscally responsible approach to farm policy and provides a safety net when needed. As such, Congressional estimates of commodity program (CCC) spending through 2005 range from $13 – 19 billion below the levels estimated by the Congressional Budget Office (CBO) when the bill was approved in 2002. Total commodity spending for 2002-2007 is projected to be below the total level estimated in 2002.

As you know, there have been two measures introduced in the U.S. House of Representatives to extend the 2002 Farm Bill. H.R. 4332, introduced by the ranking member of this committee, Representative Colin Peterson (D-MN), would extend the 2002 farm bill for one year, and possibly up to two years if legislation to implement a WTO agreement is not presented to Congress by January 15, 2008. This would ensure that Congress is not attempting to write a new farm bill while WTO trade negotiations are continuing and without knowing the final rules of a new WTO agreement.

In addition, H.R. 4775, introduced by Representative Mac Thornberry (R-TX), would extend the 2002 farm bill through the crop year after Congress approves a WTO agreement. This would allow Congress the time necessary to write a new farm bill that would be compliant with an ultimate WTO agreement, whenever that agreement may be reached.

Commodity Program Policies

Commodity programs are vital to the U.S. rice industry's survival. The industry believes the following policies must be continued:

- Provide US farmers an effective safety net
- Support the rice program levels authorized in the 2002 Farm Act and oppose reductions in program benefits
- Maintain planting flexibility.
- Continue marketing loan and loan deficiency payments structure and the certificate program.
- Continue to establish loan rates at no less than $6.50 per cwt.
- Support an income safety net for producers through a program including countercyclical income support, direct payments and marketing loan program.
- Compensate producers for current and future conservation/environmental practices that enhance water, soil, and air quality and wildlife habitat.

For the typical family farm that produces rice, economic survival is dependent upon a number of factors:

- An effective farm program, such as the Farm Security and Rural Investment Act of 2002, that provides basic support through marketing loan eligibility for all production and income support through counter-cyclical and direct payments;
- for rice operations of all sizes to maintain eligibility for farm program benefits;
- development and expansion of global markets.

The price for U.S. rice is driven by world market conditions. International rice markets are highly volatile, thinly traded, and heavily influenced by interventionist polices in other nations as well as some aspects of U.S. foreign policy.

In recent years government payments to rice producers have increased, as low market prices increased producers' need for the income safety net provided by the 2002 Farm Act. This result is consistent with Congress' intended design of the Act.

The 2002 Farm Act's rice program includes:

- the loan rate, at $6.50/cwt, which has remained unchanged and has been frozen at the current level since 1989, despite an increase in the cost of production, in particular the large price spikes that began in 2005 and continue into 2006;
- direct payment rates, which were increased marginally, from $2.05/cwt at the end of the 1996 Farm Act to $2.35/cwt under the 2002 Farm Act;
- the target price of $10.50/cwt, on which the counter-cyclical payment program is based; the $10.50 target price is actually lower than the target price of $10.71 used under the 1990 Farm Act (the 1996 Farm Act contained no provisions for a target price), and substantially below the average target prices administered in either the 1981 or the 1985 Farm Acts.

The 2002 Farm Act was written during a period of extreme financial stress for rice growers. By 2001, average market prices had fallen each of the previous four years, to less than half (more than 56% below) 1996 levels, a time when rice prices had peaked. While prices have improved somewhat under the 2002 Farm Act, according to USDA, farm prices for rice in 2005 still remain more than 22% below the level received 10 years earlier (1995), and nearly 13% below the average farm price received over the five-year period between 1995 and 1999. In the meantime, production costs continue to rise, as operating costs (including hired labor and all other variable expenses) have increased nearly 30% just since 2000. Rising costs of fuel, fertilizer, and other necessary inputs are expected to push production costs even higher in 2006.

The planting flexibility and elimination of government stock holding that is central to the 2002 Farm Act is specifically designed to allow farmers to respond to market signals so that the long-term costs of government intervention—including costs associated with stock holding and related market inefficiencies—are minimized.
This planting flexibility policy needs to be continued in the next farm bill.

Though U.S. rice prices are influenced heavily by world market conditions, local supply and demand conditions still play an important role in determining farm prices.

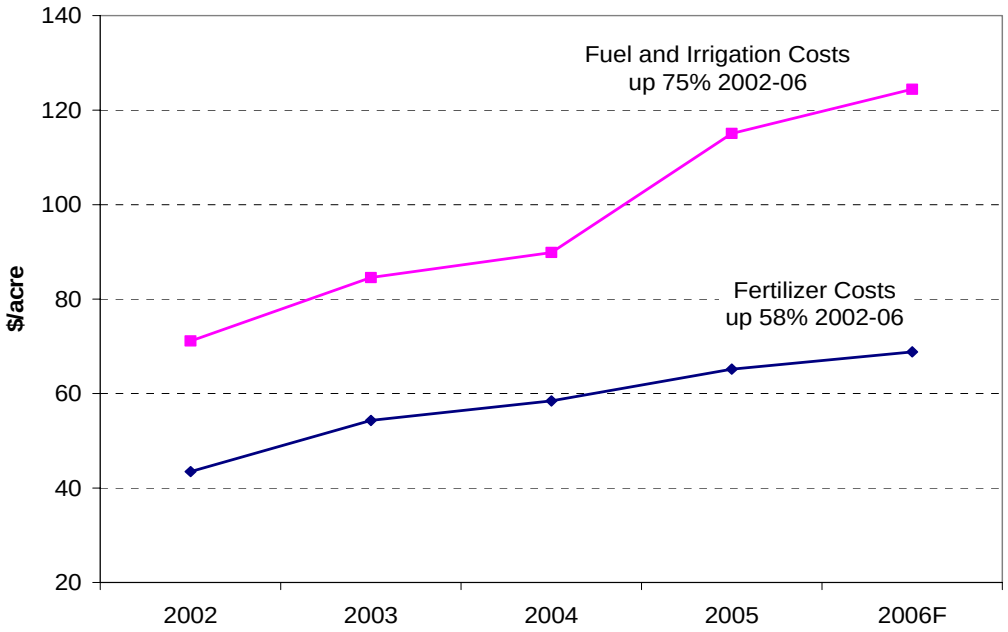
In recent years, U.S. rice stocks have returned to reasonable levels despite a decline in market prices. And, since at least the mid-1990s, the stocks-to-use ratio has followed the expected relationship of rising in periods of low prices, and falling as prices improve. This outcome is the direct result of the current policy that puts marketing and production decisions squarely in the hands of farmers, and allows the market to clear by adjusting supplies to match market demand.

Rice Production Costs

Production of rice is quite costly. It requires precision irrigation for efficient production, and intensive use of other production inputs.

According to data compiled by USDA's Economic Research Service, variable costs of production in 2005 exceeded $400 per acre, the highest of any major field crop. Variable costs of production in 2006 are forecast to exceed $422 per acre. These costs are substantially higher in some areas, such as California, which has strict environmental standards and inflationary land prices.

Chart 1: Fertilizer, Fuel and Irrigation Costs 2002-06



These higher costs of production are having a direct impact already on 2005 crop returns and will impact producers' 2006 crop planting decisions and returns.

Even with the safety net in place, we have experienced much higher production costs. In particular fuel and fertilizer costs, have risen sharply and will continue to reduce rice profitability far below levels previously expected.

The current programs do not ensure individual rice farms can make a profit, and in the face of rising production costs many farmers—especially those who must rent much of their land—can experience significant losses despite the current farm programs or the recent improvement in market prices from their historically low levels.

While the farm price of rice strengthened in recent years, production costs have increased to their highest levels in history, eroding much of the benefit that farmers would normally expect from improved market prices. As a result, the average producer is barely able—and in some cases unable—to cover the costs of production.

In periods of low market prices, the marketing loan program provides important protection by helping to ensure that producers can cover their basic operating (i.e. variable) and ownership (i.e. taxes, insurance and depreciation) costs after the crop is

harvested. Any reduction in the loan rate would leave producers vulnerable to being unable to cover production expenses when market prices fall, particularly as production expenses continue to rise as rapidly as they have in recent months.

The extent to which government programs—particularly the loan rate—assist rice farmers with market losses is in fact quite modest, particularly in light of rice's naturally higher production costs, which include extraordinary irrigation, land-leveling, and other management costs.

Marketing loan levels were raised for all major crops except soybeans and rice in the 2002 Farm Act. As stated previously, rice has maintained the same loan rate since 1989.

Farm policy, therefore, must recognize the fundamental differences in per acre costs of production in high input, high yielding crops such as rice.

Government Payments Through Rice Marketing Cooperatives

Approximately 45% of all rice commercially produced in the United States is marketed through farmer-owned cooperatives, with three accounting for the vast majority of sales.

Marketing cooperatives provide an important service to rice-grower members, allowing them to reap the benefits of large-scale, sophisticated marketing systems while maintaining their independence and sharing profits generated from the rice milling and sales:

- All government payments collected by rice cooperatives are passed directly back to the individual members that produce the rice sold by the cooperative; none of these payments are retained by the cooperative itself.
- Cooperatives only collect government payments associated with the marketing loan program. Direct payments, counter-cyclical payments, and disaster payments are the sole responsibility of individual farmers who must sign up for these programs.
- The cooperatives are legally responsible for ensuring that all of their farmer members eligible for marketing loan program benefits are in compliance with all program rules and regulations, including payment limitation provisions.

It has been reported that rice cooperatives are one of the largest beneficiaries of farm support programs. However, given that each of these entities are comprised of thousands of rice grower members, the reality is that the average government payment received by each member through rice cooperatives was under $19,000 in 2003, and under $2,500 in 2004. This is well below the current $75,000 federal payment limit for marketing loan program benefits.

A Note on Farm Partnerships

A similar clarification needs to be made about payments to rice farmers that occur when the farms receiving payments are in fact partnerships or corporations that could have several shareholders.

Although the partnership or corporate entity is the initial recipient of government payments, these proceeds are often distributed to several individual partners or shareholders that have a direct stake in the operations of that farm, and who must be "actively engaged" under current law and USDA regulations.

Economic Contributions of the U.S. Rice Industry

Rice production contributes heavily to the economic activity of several states, particularly those where it is produced in significant quantities, but also—to a somewhat lesser extent—in other states and regions where inputs for rice production are manufactured and where rice is milled or processed for food or other uses.

Rice Production

The regional concentration of rice production makes it an extremely important crop in key producing states.

Rice production ranks in the top 8 most valuable crops produced in each of the six major states. In 2004, the market value of the rice crop in Arkansas accounted for nearly 47% of all crop revenues, and in Louisiana rice accounted for 21% of all crop revenues, making it the most valuable crop produced in each of these states. Rice is the third most valuable field crop produced in California, the fourth in Mississippi, the seventh in Missouri and the eighth most valuable of all crops produced in Texas.

Given the high costs of producing rice compared to most other basic agricultural commodities, the contribution to general economic activity from land devoted to rice production tends to be much higher than for other crops.

High input expenditures for rice production imply significant economic activity for the sectors that supply those inputs in the regions where rice is produced.

Each dollar's worth of rice produced in the United States generates about 90¢ worth of revenue for the industries that supply variable production inputs.

Based on state estimates of production costs and rice acreage planted in 2005, U.S. rice farmers spent nearly $1.7 billion to produce 3.38 million acres of rice, including both variable costs and basic ownership costs associated with rice production.

Chart 2. Rice Production Expenditures by State, 2005 (1,000 acres, $1,000)

	Louisiana	Mississippi	Texas	Arkansas	California	Missouri	US total
Acres (1,000)	530	265	202	1643	528	216	3,384
Production Costs ($1,000)							
Operating Costs	194,559	84,384	117,442	568,094	282,819	74,686	1,321,983
Ownership Costs:							
Capital recovery	54,682	23,982	22,887	149,099	48,349	19,602	318,601
Taxes and insurance	6,489	5,306	3,524	26,298	11,051	3,457	56,125
Total Rice Production Expenditures ($1,000)	255,730	113,672	143,853	743,491	342,219	97,744	1,696,709

Source: Compiled from USDA/ERS 2005 production cost estimates and NASS estimates of 2005 state rice acreage

Given that costs of production vary across states as do the production characteristics of individual farms, changes to the system of government support available to rice farmers will also have varying effects on the acreage of rice planted in each state and therefore the contribution to general economic activity by state.

Even modest adjustments to the levels of current support could create significant reductions in rice acreage in these regions, in particular with the spike in fuel and fertilizer costs.

A reduction in rice acreage in favor of another crop would necessarily reduce the total economic activity in the region where the reduction occurred, precisely because rice contributes significantly to the revenues of various input sectors due to its higher production costs.

It is also important to note that in many regions producers face few viable alternatives to producing rice, so the adverse impact on the agricultural economy if rice production becomes unprofitable could be severe.

Economic Contribution to Key Industries

The U.S. rice industry and its allied industries are interdependent on one another. Producers' farming operations and the crops they produce create demand for certain allied industries and services, including seed, chemical, fuel, and implement dealers. These industries and others, in turn, provide the necessary jobs, services, equipment and other inputs that are required to process rice and ship it to its ultimate destination for use by food and other industries and, ultimately, consumers.

Ports: An extensive transportation and processing infrastructure has evolved alongside the farm-level rice production industry. These allied industries are highly dependent on the continued supply of rice to support their economic contribution to the overall economy.

For example, rice exports account for an important share of the shipping volume handled by a number of the nation's key ocean ports, including Los Angeles, Oakland, Sacramento, Stockton, Houston, Freeport, New Orleans, Baton Rouge, and Lake Charles.

At major Gulf ports, for example, rice accounts for about 35% of all food products shipped. Studies have suggested that each ton of rice handled by major ocean ports generates $50 to the local economy and $75 to the state economy.

Although rice accounts for only a small share of outbound shipments at many of the nations largest ocean ports, the total volumes remain large and support the employment of thousands of port employees.

Mills: In addition to the economic activity generated from rice farming, a large U.S. rice milling industry performs the vital function of processing rice into forms useful to the food and feed industries. The U.S. Census Bureau estimates that the rice milling industry employs more than 4,000 people, and supports an annual payroll in excess of $135 million.

Conservation Policies

U.S. rice producers practice sound conservation as part of their overall farm management program. The U.S. rice industry supports the following conservation policies:

- Compensation for conservation practices should be in addition to, not a substitute for, existing or future farm safety net programs including direct payments, marketing loan gain/loan deficiency payments, counter cyclical program payments, or any other farm income support payment program.
- Continuation of the Conservation Security Program (CSP) and any other new conservation funding should be targeted towards land that is in production or considered in production.
- There should be no payment limitations on conservation program payments and we oppose reductions on current conservation program limits.
- All conservation payment programs should be voluntary and incentive-driven.
- Conservation programs should be WTO consistent and should be designed and implemented to be Green Box measures.
- Idling land for conservation or wildlife habitat purposes should be considered planted acreage for base calculation purposes.

Wetlands, Waterfowl, and Wildlife

Rice farming is one of the few commercial enterprises that actually promotes wildlife habitat and improves biological diversity.

Since the very nature of rice production requires that fields be flooded for many months of the year, evidence shows unequivocally that it plays a vital role in supporting common environmental goals such as protecting freshwater supplies and providing critical habitat for hundreds of migratory bird species and other wetland-dependant species.

Rice fields are typically flooded for an average of eight months a year, during which time they become temporal wetlands with enormous significance to bird populations wintering and breeding in the rice producing states of California, Arkansas, Texas, Missouri, Mississippi and Louisiana. Both natural and agricultural wetlands are indispensable to them.

Flooded rice fields are also vital to migrant and wintering shorebirds. Rice fields provide feeding habitat for these migrant shorebirds. In fact, California rice acres now designated as "Shorebird Habitat of International Significance." They are officially listed in the Western Hemisphere Shorebird Reserve Network. It is what growers do in the process of producing their annual crop that benefits over 14 species of shorebirds in the region. This is a tremendous benefit that is essentially "free" to the public only because of a viable rice industry. It is a strong safety net program (i.e. Commodity Title) that helps to secure these types of conservation benefits, year after year, on a consistent basis.

Without rice farming, wetland habitats in the United States would be vastly reduced. A loss of this magnitude would have a disastrous effect on waterfowl and a host of other wetland-dependent species.

With 95% of original wetlands now gone, the waterfowl, shorebirds, and other wildlife along the Pacific Flyway have come to depend on ricelands. At certain times of the year, rice acres now hold up to 60% of the millions of waterfowl in the Pacific Flyway. More than one million Northern Pintails have been counted in recent years during January waterfowl surveys in California's Central Valley. The Valley's rice country is now critical habitat for the recovery of this highly valued duck species. In addition, upwards of 300,000 shorebirds are known to use our fields annually.

The value of this habitat is stunning. If all rice acres in California were removed today and the public sector were to acquire and restore enough wetlands to support that same number of wintering waterfowl currently supported by rice, over 175,000 acres would have to be created. This would cost at least $600 million and the cost continues to increase with increasing land values. Once created, approximately $20 million would be spent each year to maintain these wetlands. Again, this substantial public resource benefit comes essentially "free" to the public because of a viable California rice industry. And, changing cultural practices, such as no longer relying on the burning of rice fields in California to remove the straw that remains after harvest, has resulted in a dramatic reduction in air pollution Growers now spend $16-$20 million each year, in the form of alternative methods of rice straw management, to keep these emissions in check. Without rice, other more polluting urban and other industrial emission sources would likely take its place on the landscape. This further illustrates the rice industry's commitment to promoting a safer and cleaner environment for all of society. Overall, California rice lands are known to be used by 183 species of birds, 28 species of mammals, and 24 species of amphibians and reptiles. In total, over 235 species of wildlife use California ricelands. Among these are over 25 species of special concern such as Long-billed Curlews, Bald Eagles, and Giant Garter Snakes.

Rice production areas in Texas correspond with the bird migration corridor known as the Central Flyway, providing important habitat to hundreds of bird species that rely on these artificial wetlands during their migratory journey. According to the Texas Ornithological Society, Texas is home to nearly 650 different bird species, more than half of which can be found in the Texas Rice Belt. Similarly, Arkansas, Louisiana, Mississippi, and Missouri production areas are located in the lower portion of the Mississippi Flyway, which is the continent's most heavily used waterfowl migration route. This Flyway ranks first in abundance of mallards, wood ducks, blue winged teal, gadwalls, and many other migratory birds. The state of Mississippi is among the Flyway's most important waterfowl breeding areas, producing more than 15% of the continent's fall flight of ducks during years with good water conditions.

And, all major rice-growing areas also provide surrogate habitats for hundreds of species of reptiles, snakes, insects and amphibians that rely on wetland conditions for species survival. Many of these species are currently or would otherwise be endangered if not for the wetland environments provided by flooded rice fields.

The clear and positive benefits that commercial rice production has for migratory birds and other wildlife species contribute not only to a more interesting and diverse landscape, but also provide economic benefits that support local economies and create jobs.

Clearly, by providing a favorable habitat for migratory birds that in most cases would be much small smaller without the existence of rice farms, commercial rice production is directly responsible for a very significant proportion of all wildlife-related revenues generated in these states.

By providing an environment favorable to wildlife advancement, rice production clearly generates positive environmental benefits to the economy and society.

Water Quality

Modern rice production is critically dependent on a reliable supply of water to flood fields. The use of this water in responsible rice farming actually produces several environmental benefits. For instance,

- Water consumption for rice production is lower than for many other crops.
- Flooded rice fields preserve water quality.
- Much of rice irrigation water is returned to its original source.
- Modern rice cultural practices preserve water quality.
- Rice production counteracts other threats facing natural wetlands.

Other Key Policies

In addition to its commodity program, payment limit, and conservation policies, the U.S.

rice industry also supports the following other key policies:

Crop Insurance

- We support crop insurance as a supplement but not a substitute for the farm bill safety net, including efforts to improve the effectiveness and benefits of crop insurance programs for rice producers, particularly revenue and cost of production type policies.

Landlord-Tenant Relationships

- We would consider efforts to address the treatment of program benefits in the context of the landlord-tenant relationship.

Market Development Programs

- Reauthorize the Market Access Program (MAP) and Foreign Market Development Program (FMD) at not less than the levels established in the Farm Security and Rural Investment Act of 2002.
- Reauthorize the Emerging Markets Program.

Food Aid

- Reauthorize the P.L. 480 Program, including Titles I and II, and other food aid programs within the policies and at the levels established in the Farm Security and Rural Investment Act of 2002.
- Food aid should not displace commercial sales, and should only be provided in commercial U.S. rice export markets in times of food security emergencies.

Trade Policy Impacts on the U.S. Rice Industry

The U.S. market for imported rice is remarkably open, with U.S. tariffs on rice imports almost non-existent. Unfortunately rice remains among the most protected agricultural commodities among our trading partners–especially in Pacific Rim countries such as Japan and South Korea. As a result, the U.S. rice industry supports the elimination of all duties in importing countries and equal tariff treatment for all types of rice.

Despite the general continuing trend towards market liberalization, rice outside the United States has remained among the most protected agricultural commodities. The level of government intervention in the international rice market—i.e., trade barriers, producer supports, and state control of trade—is substantially higher than for any other grains or oilseeds.

This is a major factor contributing to price volatility in the international rice market and a fundamental reason why the U.S. industry needs the stabilizing influence of current federal rice programs.

Because the U.S. rice industry exports between 40 and 50 percent of annual rice production, access to foreign markets is fundamental to the health of our industry. We believe that multilateral WTO negotiations and the South Korean FTA negotiations are the best way to bring down trade barriers worldwide. However, the Doha Round negotiations are also about agricultural domestic supports. Any agreement that improves market access will also limit the ability of the U.S. to use certain types of farm programs. Many of the details of any eventual agreement are still very much under negotiation, and the overall effect of the final agreement on our industry will depend on the overall package that emerges. However, all agreements must result in meaningful, measurable market access gains that yield timely market access.

The U.S. rice industry's exports are often subjected to direct government intervention through state trading agencies. High tariff and non-tariff barriers, such as discriminating import tariffs on U.S. paddy and milled rice exports, also are used.

The United States share of world rice exports has averaged between about 10% and 13% over the last 10 years, down from a peak of about 30% as recently as 1975.

This decline in world export share reflects an increase in domestic consumption, as well as increased supplies from traditional exporters like Thailand and Vietnam. U.S. sales are also constrained by market access barriers in high-income Asian countries like Japan, Korea, and Taiwan, and the European Union and Latin American countries.

U.S. Trade Sanctions Unfairly Impact the Rice Industry

U.S. trade sanctions also have played a key role in destabilizing the U.S. rice industry and constraining its long-term market potential, which has affected and continues to affect market prices to U. S. producers.

In addition to the severely distorted international markets faced by the U.S. rice industry, U.S. policies intended to punish foreign nations or encourage regime change disproportionately harm U.S. rice producers.

Trade sanctions have caused disproportionate harm to rice among U.S. commodity groups. At various times within the past four decades, our number one export markets were closed because of U.S. trade sanctions policy:

Cuba: Prior to 1962 Cuba was the largest market for US value-added rice, but since then this important market has been largely closed to US exporters. As a result, China, Vietnam and Thailand have emerged to become major suppliers of the roughly 500,000 metric tons of rice that Cuba imports annually. Recent efforts to ease restrictions on US sales of food and medicine to Cuba under the Trade Sanctions Reform and Export Enhancement Act of 2000 have allowed the United States to regain a significant share of this market, with US rice exports to Cuba reaching nearly 177,000 metric tons in 2004, valued at more than $64 million. However, even these important gains are threatened by

restrictive regulations imposed by the U.S. Treasury Department that have resulted in the volume of rice exports to Cuba declining by 25% in 2005. The United States has a considerable freight cost advantage over other exporters, which suggests that further easing of the restrictions that remain in place could provide substantial opportunities for much larger rice exports to Cuba.

Iran: Similarly, in the 1970's the U.S. rice industry exported on average 300,000 metric tons of value-added rice to Iran. This was the largest U.S. rice export market for value-added rice, and it also was eliminated through the unilateral imposition of U.S. trade sanctions on Iran. But, it continues to grow and in 2004 imported 973,000 metric tons of rice valued at nearly $300 million, mainly supplied by Thailand and Vietnam.

Iraq: In the 1980's, US rice exports to Iraq averaged about 400,000 tons, but UN sanctions eliminated the market for US producers even while this market grew to nearly 1 million metric tons ($200 million) supplied primarily by Thailand, Vietnam and China through the U.N. Oil for Food program. In 2005, U.S. rice sales to Iraq were resumed.

The total of these three markets represents more than 2.5 million metric tons of market potential per year that the United States had lost for decades, and that in many cases remains restricted today far below its full potential.

In light of significant market access barriers in many key rice-consuming countries, U.S. rice farmers are denied the opportunity to compete openly and fairly, which also interferes with the opportunity to discover a market price structure that could reduce the need for government support.

Conclusion

Thank you, again, Mr. Chairman, for holding this hearing and for the opportunity to express our views.

U.S. farm policy must provide a stabilizing balance to markets and a reliable planning horizon for producers.

With rice producers being severely impacted by interventionist policies enacted by foreign governments, stability and reliability must be bedrock features of our nation's farm policy.

We urge you to carefully review how well the current Farm Act is working for U.S. agriculture and consider ways to maintain its structure as we go forward to begin debate on the next farm bill.

Rice farms require significant capital investments to operate. In light of this, we urge you to consider how reduced payment limitations would harm family farm operations in the rice growing regions and other parts of the country. More restrictive limits will make it

difficult for future generations to return to the family farm. Such limitations arbitrarily restrict the economies of scale that farm operations are allowed to achieve.

Rice producers are proud:

- to contribute a highly-nutritious food product for the nation;
- of our contributions to the nation's food security;
- of our contributions to the local, state, and national economies and the nation's balance of trade;
- of the contributions we make to conservation and the environment.

Rice producers call on Congress to continue sound, fair agricultural policies in the next farm bill, including those policies in the current farm act, that help to provide:

- producers with stability and reliability;
- and consumers with an abundant, affordable, stable, safe, and secure food supply.

Rice producers look forward to working with Congress and the Administration in the development, adoption, and enactment of a sound, equitable farm bill and rice program.

In the interim, however, in light of the need for a strong safety net as part of U.S. farm policy, the U.S. rice industry supports extending the 2002 farm bill in its current form until such time as a Doha Round trade agreement is negotiated and Congress approves it.

This concludes my testimony on behalf of the rice industry, Mr. Chairman.